



CITY OF CENTER LINE FIVE YEAR FINANCIAL FORECAST REPORT  
COVERING FISCAL YEARS 2014 THROUGH 2018  
PRESENTED TO CITY COUNCIL FEBRUARY 4, 2013

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# CITY OF CENTER LINE FIVE YEAR FINANCIAL FORECAST REPORT

FISCAL YEARS 2014 THROUGH 2018

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## **FORECASTING FRAMEWORK**

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**Please note: The Finance Director/Treasurer would like to thank Oakland County officials for their 2013 Budget Framework Document, which is available on the Oakland County website. Parts of that report were referenced in the preparation of the following forecasting framework.**

### *NATIONAL AND STATE ECONOMIES*

#### **FISCAL CLIFF**

Recently, the Federal government averted the so-called 'fiscal cliff'. The following are key impacts on Center Line (the City) as a result of the fiscal cliff deal:

- The permanent passage of the Bush Tax Cuts
  - Established a new low-income tax bracket of 10% (previously 15%).
  - Standard deductions for married couples were increased.
  - Established certain tax credits per-child as well as dependent child care cost tax deductions.
- The lapse of the employee tax holiday
  - Increased the employee payment portion of social security withholding from 4.2% to its traditional level of 6.2%
  - This will cost the average Center Line worker \$764 (\$63.67 a month) based on the most recently reported personal income per capita of \$38,197 as seen in the 2012 Center Line Comprehensive Annual Financial Report (CAFR).
- The rejection of the 27% reduction in Medicare reimbursement rates to doctors.

#### **UNSUSTAINABLE FEDERAL DEBT / STRUCTURAL BUDGET DEFICITS**

Beyond the recent fiscal cliff deal and it's mostly positive effect on the City, the Federal Government has effectively been reduced to constant crisis management. Numerous Federal agencies and departments operate without a director, rendering their respective continuing missions – and our tax dollars we spend on it – greatly reduced in efficiency and operational innovation. The reason for this in many cases is political blockage of the appointment process in Congress. Also of concern on the Federal level is the national debt ceiling. To understand the significance of the national debt is to simply write it out:

**Sixteen trillion, four hundred and ninety-five billion, eight hundred and forty-seven million, two hundred and ninety-six thousand, eight hundred and fifteen dollars** as of 3:32pm on February 1, 2013.

In numbers, that's \$16,495,847,296,815, or \$52,325 per citizen, or \$146,018 per taxpayer. To restate from above, the City of Center Line's annual personal income per capita is \$38,197. Bond rating agencies are beginning to take note, with one agency having already downgraded the United States and the other two placing the United States on a 'negative outlook', meaning that absent significant actions by the government to solve its core structural operating shortfall, these organizations will downgrade the United States rating as well.

## **FORECASTING FRAMEWORK**

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### *NATIONAL AND STATE ECONOMIES (CONTINUED)*

Of significant concern to these agencies is the continual crisis of the debt limit and whether Congress will act to increase the limit in time. Each time this situation has come up, the Country has held its breath as Congress has walked us ever closer to the brink of default on the national debt. To solve this problem, the President of the United States proposed a plan to allow approval of increasing the debt limit to be done outside of Congress via the Executive branch. Congress kindly rejected his proposal.

A default or near default on the U.S. debt would likely result in a further rating downgrade of the United States. If this were to occur, it would further add to the Federal Government's debt burden by increasing interest costs. The City of Center Line and the State of Michigan are both adversely affected by this as it would call into question the ability of the Federal government to continue to pay out grants to states, including Michigan.

Finally, the Federal Government continues to borrow because of the continuing structural deficit it is in. Both the debt and operational budget deficits are now to the point where economists mostly agree there is no way to stimulate the economy out of deficit. The answer is a significant increase in revenues AND a significant decrease and/or elimination of programs and their associated expenditures. We believe this will occur via tax increases, tax deduction/tax credit eliminations, as well as elimination of many programs that will affect our City's residents, including human services and education.

A key expectation developed from the process of evaluating the Federal Government's fiscal health is that the City should not expect any help from the Federal Government in the next five fiscal years.

### **STATE OF MICHIGAN FISCAL CONDITION**

The State of Michigan, in contrast to the Federal Government, has improved its fiscal health in the past year. While the State will be negatively impacted by potential reductions in Federal grant funding, the State has resolved many uncertainties in its own structural budget deficit, which will work in the upcoming years to create a positive impact on the City of Center Line as well as the rest of the local government units in the State.

While the State continues to improve its fiscal condition, one familiar problem at the State level is the underfunding of the State's retiree benefits. Like Center Line, only on a much larger scale, the State has been, until recently, on a 'pay-as-you-go' plan of funding, which has created liabilities of \$16.8 billion for state retirees and \$27.5 billion for public school retirees as of September 30, 2010, for **a total state obligation of \$44.3 billion dollars**. Although the State now makes the actuarially recommended annual payments on the State retiree portion of the liability, they still cannot fully fund the payment for school district retirees, as doing so would require the State to bill the districts for the additional payments, exacerbating the already poor fiscal condition of many public school districts across the State.

Economically, Michigan is leading the way in the nation's 'fragile recovery'. As of November 2012, the State's unemployment rate was 8.9%, down from 9.1% the month before. Also of note is that University of Michigan economists have projected 51,000 new jobs in Michigan in 2013 and 63,000 more new jobs in 2014. When coupled with the fact that Michigan is now ranked sixth in the nation in economic growth (up from 50<sup>th</sup> just two years ago), the news on the surface can seem to be very positive. While the news is good, it's not great. With the above noted job creation numbers above, the State would recover through 2014 just one-third of the jobs lost between 2000 and 2009. In short, Michigan is turning a corner, but still has a long way to go.

## FORECASTING FRAMEWORK

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### NATIONAL AND STATE ECONOMIES (CONTINUED)

Two major events occurred within the last two months that will have a major impact on Center Line, and all municipalities, in the next five years. In early January, the State of Michigan held its revenues estimation conference. Outside economists at the conference projected that state sales tax revenues, which fund the City's State Shared Revenue Constitutional payments, are set to increase by between 3.2% and 3.6% each year for the next three state fiscal years (**source: Office of Revenue and Tax Analysis**). For Center Line, this will mean approximately \$63,000 (or roughly \$21,000 per year) in additional Constitutional State Shared Revenue over the City's next three fiscal years. To compare the average annual gain to the City's operations, it would cover virtually the entire cost of a 30 hour per week part time clerk. In short, the gain in State Shared Revenues is significant to the City.

### PERSONAL PROPERTY TAX REFORM

Another major event that occurred during the state legislators' lame duck session in December was the passage of the Personal Property Tax (PPT) Reform Bill. This bill has two key provisions that will have a material effect on the City's financial future, which are outlined below along with their effective dates:

- Small Taxpayer PPT Exemption – Beginning in tax year 2014 (fiscal year 2015), all industrial and commercial personal property with a taxable value of less than \$40,000 will be exempt. The loss to Center Line is forecasted to be \$1,905,381 in taxable value, or \$27,939 in general operating tax revenues (**sourced from Macomb County Equalization; Steve Mellen**).
- Exemption for New and Existing PPT – Beginning in tax year 2016 (fiscal year 2017), all eligible manufacturing personal property manufactured between 2013 or newer will be 100% exempt. Also exempt will be all used manufacturing personal property new in 2005 or earlier. In each subsequent year, one additional year will be added to the used manufacturing personal property exemption until all eligible manufacturing personal property is exempt in 2023. The City forecasts the loss of \$17,404,274 in personal property taxable value in fiscal year 2017, equal to \$255,199 in general operating tax revenues.

After a hard fought campaign by many communities, which was spearheaded by the Michigan Municipal League's 'replace don't erase' campaign, state legislators agreed to tie the entire bill to the approval of a statewide referendum on the approval of a change to the State Constitution regarding allocation of the State Use Tax. The change in allocation will be used to fund approximately 80% of local governmental unit losses as a result of the PPT changes noted on the previous page. In addition to this re-allocation of the state use tax, an additional assessment will be levied for revenues lost by local units as a result of the PPT changes above that were previously used for so-called 'essential services', such as public safety. Local units will have the option to levy an essential services assessment in order to re-capture 100% of those lost revenues, although it may work out to be less than 100% reimbursement due to certain limitations.

Ultimately, the City of Center Line is projected to be eligible to levy an essential services assessment (ESA), which when combined with State Use Tax reimbursements for non-essential services, will reimburse the City a forecasted \$189,000, or 74% of all revenues lost in fiscal year 2017. This represents a permanent loss of tax revenues of \$66,199. Note that the City's total reimbursements are less than 80% of lost revenues because the ratio of industrial real property compared to industrial personal property for the City is only 79.9%.

## FORECASTING FRAMEWORK

### NATIONAL AND STATE ECONOMIES (CONTINUED)

For example, a ratio of 100% would result in a full 80% reimbursement of non-essential services which would then be combined with a 100% reimbursement of essential services to yield a significantly higher overall reimbursement percentage. ***Unfortunately for Center Line and many communities throughout the state, the reality is that the actual dollars received will end up being less than the often quoted 80% reimbursement.***

As stated earlier, all the PPT changes voted into law will only go into effect if the state-wide referendum on the re-allocation of the State Use Tax is approved by the people in the August 2014 election. Looking at the figures above, it can be tempting to hope for the failure of this referendum, however, the PPT reform as written and signed into law is very likely going to be the best compromise local units can get. Another key consideration is that the PPT is, frankly, an economically stifling tax and does need to be eliminated. If the state-wide referendum was to fail, it would be very likely that a new law would be passed immediately that would not be tied to any form of reimbursement. Ultimately, the City of Center Line would then lose the full \$255,199, rather than the net \$66,199 we are in line to lose now.

**For these reasons, the City of Center Line strongly encourages its residents to vote 'yes' on the State Use Tax Referendum in August 2014.**

### REGIONAL AND CITY ECONOMIES

Southeastern Michigan has long been the world capital of the car industry and arguably the world capital of manufacturing. As such, the region and the City have been hit hard by globalization of the manufacturing industry and even harder hit by the Big Three's market share decline over the past decade. The chart below shows just how significant these events have been to the City of Center Line:

CITY OF CENTER LINE  
KEY ECONOMIC INDICATORS  
AS OF JUNE 30, 2003 AND JUNE 30, 2012

INDICATOR	JUNE 30, 2003	JUNE 30, 2012	PERCENT CHANGE
Total City Taxable Value	\$ 237,690,695	\$ 184,419,474	(22.4) %
City Operating Millage Revenues	3,485,259	2,704,143	(22.4)
Concentration of Workforce*			
Total Jobs	2,102,000	1,834,700	(12.7)
Total Manufacturing Jobs	317,300	214,600	(32.4)
Unemployment Rate*	8.0	10.2	(27.5)

\*Data presented is for the Detroit, Livonia, Warren metropolitan area per the Bureau of Labor Statistics.

Source: City of Center Line 2012 Comprehensive Annual Financial Report

## **FORECASTING FRAMEWORK**

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### *REGIONAL AND CITY ECONOMIES (CONTINUED)*

#### **THE BIG THREE AND EMERGING TECHNOLOGIES**

After the federal bailout of Chrysler and General Motors, the Big Three have greatly improved product lines and are truly making a comeback. Profit margins among the fleet's high mileage vehicles continue to be very small. Due to the temporary stabilization of gas prices, consumers are returning to purchasing preferred full-size cars, crossover, and sports utility vehicles. This is a very positive trend for the Big Three should it continue as these vehicles net a much larger profit per vehicle than their economy car fleet.

Also of note are new jobs being created by the Big Three, including 1,500 jobs at the Warren Tech Center just one mile north of Center Line. MOPAR world headquarters, a subsidiary of Chrysler and located in Center Line, remains committed to the City after nearly being shut down in 2009. Overall, the actions of the Federal Government to bailout Chrysler and General Motors have added a significant level of economic stability to the City and region.

Despite gas prices stabilizing in the \$3.25 to \$3.75 range over the last year, there is improved demand for so-called eco-friendly high mileage vehicles, some of which are in part or totally electric (i.e., no internal combustion engine). While Toyota beat the Big Three to the marketplace with the Toyota Prius, the Big Three have answered the call, with hybrid versions of a variety of the total fleet's vehicles, including some electric cars.

Perhaps the most notable/most debated domestic eco-friendly car is the innovative electric/traditional gas engine powered Chevrolet Volt. Because General Motors was bailed out by the U.S. taxpayers, many have criticized the company's decision to go forward with the Volt, seen by these individuals as another example of the company's wasteful spending. Some figures have circulated stating that the cost of production of a Chevy Volt is well in excess of \$70,000, while the vehicle sells for only \$30,000 to \$45,000, depending on options chosen. General Motors has refuted these numbers, accurately stating that cost per vehicle calculations, which include research and development costs, must be equally allocated across all vehicles projected to be sold, not just those sold to date, which was the case with the \$70,000 cost per vehicle quote noted above.

Ultimately, what cannot be debated is that electric and electric hybrid car demand is not as high as initially projected by General Motors and that the company may not actually make any money on this generation of these vehicles. That noted, the emerging battery technologies constantly being developed and improved to provide longer mileage ranges to these vehicles is firmly rooted in Michigan and is creating high-tech, high-paying jobs. Further, the Federal Government has given grants to many Michigan-owned, Michigan job creating companies in the battery industry. While the short-term outlook is much improved for the Big Three, its future – and the region's future – rests firmly in the hands of innovation via both increased fossil fuel economies and alternative fuel vehicles.

#### **CITY OF DETROIT FINANCIAL CRISIS**

A major constraint on Southeast Michigan is the City of Detroit, its northern border just two miles south of Center Line. Detroit has consistently been on the brink of bankruptcy for several years. Currently, the State is working with local officials in Detroit on solving their financial issues via a series of steps known as a consent agreement.

## **FORECASTING FRAMEWORK**

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### *REGIONAL AND CITY ECONOMIES (CONTINUED)*

While some in the region may believe we can do without a successful Detroit, the only way the region can truly operate at its highest potential is if the uncertainty in Detroit is resolved. For this reason, a major unknown when forecasting the next five years for the City of Center Line is the impact, likely to be considerable, of a resolution to the situation in Detroit, be it an emergency manager or via a more positive solution for local leaders, workers, and residents of that City.

## **FORECASTED EXPECTATIONS**

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### **KEY EXPECTATIONS**

In developing the forecasted expectation for the City of Center Line over the next five fiscal years, the following key expectations were used:

- Based on the current and expected future Federal environment, the City is not expecting any significant Federal grant funding other than an allotment of the Community Development Block Grant program passed through from Macomb County in fiscal year 2015 in the amount of \$225,000. This program, as confirmed with County officials, is not seen as being in danger of being substantially cut at this time, though the City will continue to watch for news regarding future curtailments of the program.
- Based on the State's recent revenues estimation conference, the City is expecting an increase in Constitutional State Shared Revenue of approximately 3.5% per year for fiscal years 2014, 2015, and 2016. 2017 and 2018 are projected to be flat at this time.
- Preliminary County Equalization numbers indicate that the City will lose approximately 11.9% of its total taxable value in tax year 2013 (fiscal year 2014). Past tax year 2013, the City expects that real property tax values will slow their decline and will eventually increase value beginning by no later than tax year 2016 (fiscal year 2017). Total tax revenues are forecasted to decline because of real property value declines from tax year 2013 through 2015 and then decline in tax year 2016 because of major losses stemming from the personal property tax reform bill. The City forecasts a net gain in tax revenues in tax year 2017 (fiscal year 2018).
- Health insurance costs for active employee healthcare plans are projected to increase at a rate of 6% per year, which is in line with the increases the City has seen to these plans for the past two fiscal years. Costs related to the ramifications of the Affordable Care Act (ACA) remain difficult to calculate, but preliminary numbers indicate that if the City needs to pay a penalty because of certain uncovered part-time employees, that the penalty would not be significant in nature.
  - Active healthcare costs project that all future union contracts will be ratified with provisions allowing the City Council to enact a 20% employee contribution policy in accordance with Public Act 152 beginning with fiscal year 2015.
- Health insurance cost projections for retiree plans are projected to increase at a rate of 8% per year. This projection was based on past increases as well as the City's external healthcare advisor's projections. The increases in the forecast do not equate to an exact 8% increase each year because of projected drop offs of some retirees from traditional pre-age 65 coverage to our supplemental post-age 65 coverage, which saves the City between \$12,000 to \$26,000 per retiree converted to this Plan. The Plan affords the exact level of coverage as the pre-65 plan.
- The City's Self-Insured Prescription coverage plan is projected to increase at a rate of 5% per year. This projection was based on past increases as well as the City's external healthcare advisor's projections.
- The City assumes a consumer price index (CPI) of at least 2% to 4% per year over the next five years. Coupled with decreasing tax values over much of that same timeframe, the cost of providing City services will rise in combination with the declining revenues.

## **FORECASTED EXPECTATIONS**

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### **KEY EXPECTATIONS (CONTINUED)**

- The City assumes the defeat of Center Line Public School's hold harmless millage renewal referendum and the expiration of that millage, with the last collection of it being in tax year 2013 (fiscal year 2014). The defeat of the millage would lighten the tax burden on the residents of a majority of the City, resulting in improved desirability of the property in the City. Although debatable, for purposes of the forecast the City believes taxable values would rise in subsequent tax years as a result of the defeat of the millage. If the millage referendum passed, the City's projected taxable value increases across the next five years would probably stay on the same track, but would be 2% to 3% lower each year, decreasing projected tax revenues by the same percentage each year between fiscal year 2015 and fiscal year 2018.

As the City's Department Heads prepare the final drafts of their biannual 2014 and 2015 budgets in preparation for the department budget meetings in February, the following expectations for their budgets have been communicated:

- For budget year 2014, department operating budgets will be frozen at 2013 levels, meaning that if no additional programs or services are offered, no additional funds will be provided to those department accounts. When coupled with the CPI increase, this is effectively a budget cut of approximately 3% to 4%. Department budgets as a whole will likely increase due to the increase projected for employee fringe benefits.
  - Department Heads have been advised to consider capital equipment improvements as several departments have aged or obsolete equipment in need of major repairs or replacement.
- For budget year 2015, department operating budgets will be uncapped and allowed to increase at the rate of that year's CPI. This is projected to be at approximately 2% to 4%.
- For both budget years, non-union employee wages, as has been the case in previous years, will continue to be frozen.

## FORECASTED EXPECTATIONS

### CITY FINANCIAL FORECAST

#### *SUMMARY*

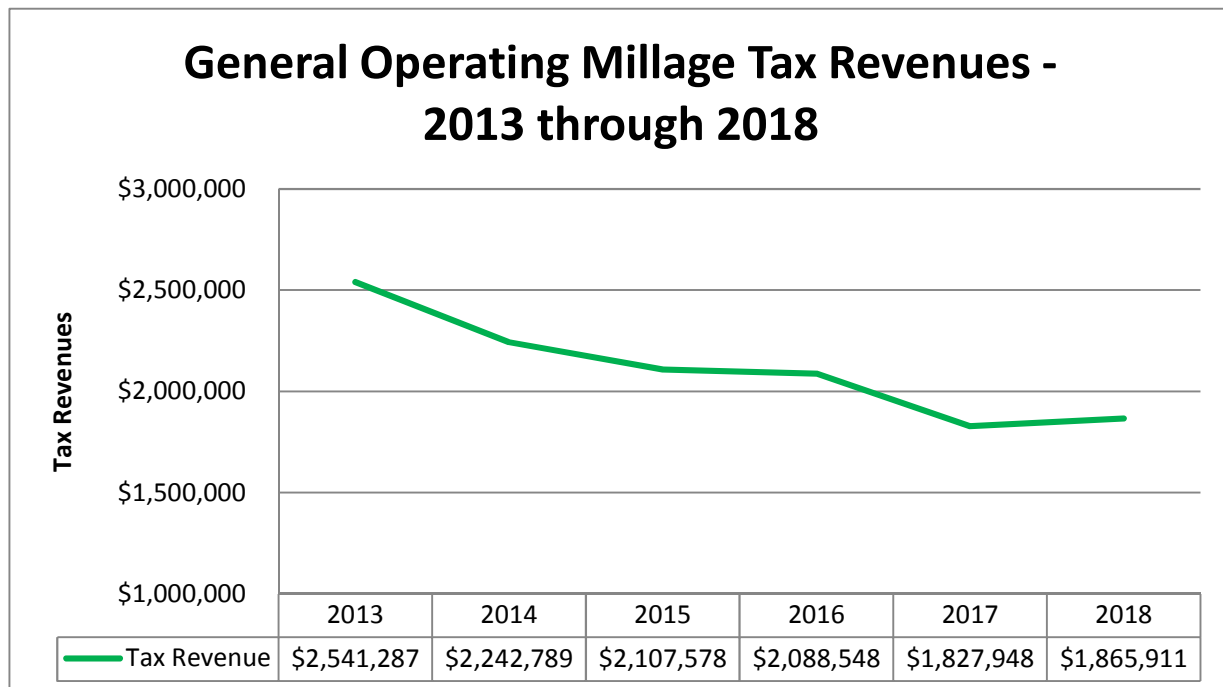
The City of Center Line was heading towards certain insolvency and an emergency manager just two years ago. Thanks to difficult decisions such as employee benefit cuts and job eliminations made by management alongside the decision of the residents of the City who passed the public safety millage, the City is in a position to provide a stable economic environment in which to live, work and play for the next five years.

In summary, the City's general fund is projected to have surplus operating budgets for fiscal years 2014, 2015 and 2016. The City will suffer losses in 2017 and 2018, but these will be sustainable losses which will be funded with appropriated surplus fund balance. As the forecast stands now, the City will end operations at June 30, 2018 with a fund balance equivalent to 22% of its current operating expenses (COE's), which is slightly above the industry best practice of 20% as recommended by the Government Finance Officers Association (GFOA).

One of the most pressing issues of our time in municipal finance is the issue of funding retiree benefit costs such as health care. These costs are known as Other Postemployment Benefits, or OPEB for short. In previous years, the City has paid on a 'pay-as-you-go' basis, which has created a liability as of June 30, 2012 of \$7,037,889. This liability is nearly equal to one full year of the City's entire operations. With the resolution of the City's major financial problems now behind us, it is time to address this issue. This forecast will outline a plan to fund a significant amount of the current OPEB liability over the next five years.

#### *TAX REVENUES*

As the most significant source of revenue to the City, taxable value trends are watched very carefully. The following chart shows projected tax revenues in fiscal year 2013 through fiscal year 2018:

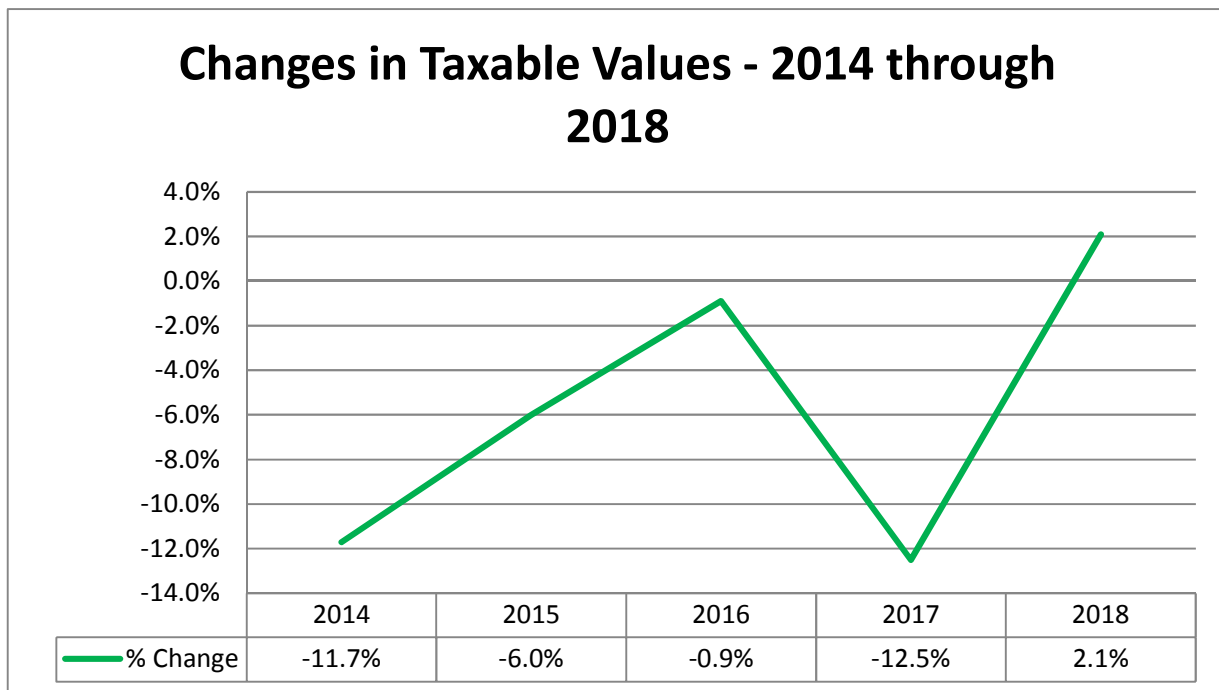


## FORECASTED EXPECTATIONS

### TAX REVENUES (CONTINUED)

As can be seen on the previous page, the City is projected to lose tax revenues through 2017, with the most significant drops occurring during the upcoming fiscal year 2014 and fiscal year 2017. The fiscal year 2017 drop is due mainly to the loss of personal property revenues as a result of enactment of personal property tax reform provisions during that year.

The City's annual percent change in taxable values can be seen in the chart below, which shows the effect of the personal property tax reform changes in 2017. For purposes of the forecast, the City forecasted lower declines each of the next three fiscal years, with a small gain in real property in 2017 (negated by personal property as can be seen below), followed by the City's first net gain forecasted in taxable values in 2018.

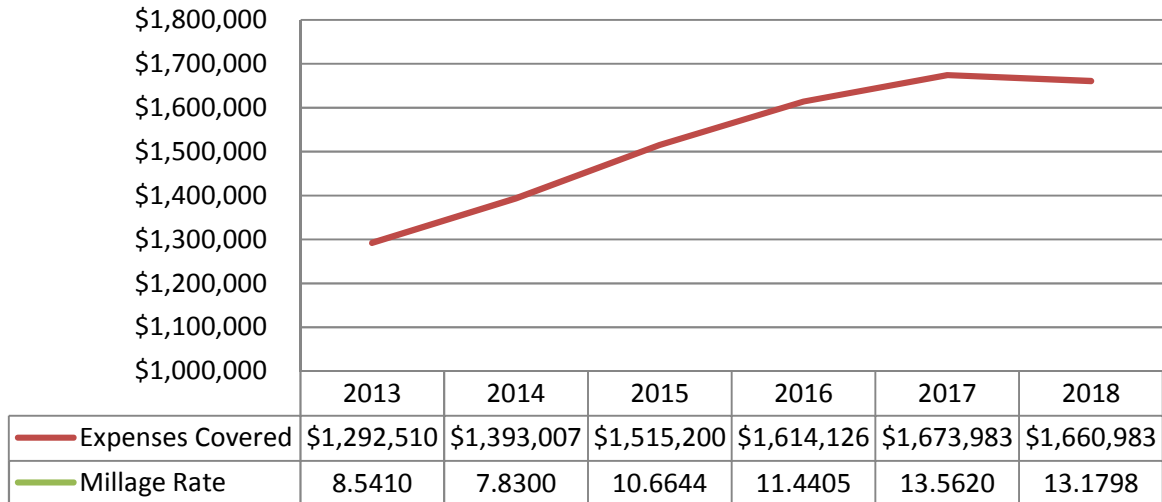


The City's variable rate millages are based on the requirement that the millages cover the expenses they are required by law (or vote of the people) to cover. The City has two variable rate millages, the PA 345 Police and Fire Pension System Millage and the City Debt Millage. The charts on the following page show the level of expenses they are projected to be required to cover as well as the projected millage rates.

## FORECASTED EXPECTATIONS

### TAX REVENUES (CONTINUED)

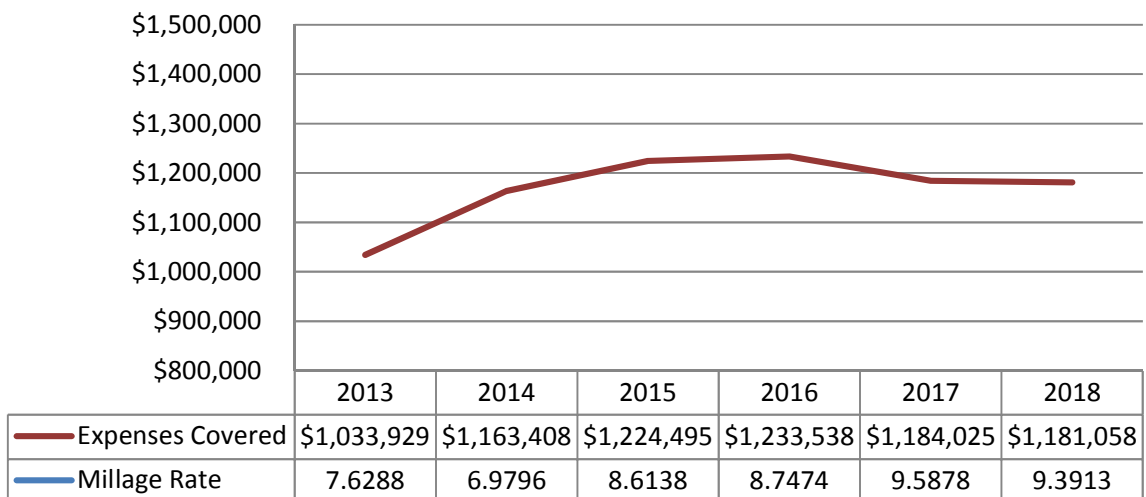
#### Public Act 345 Covered Expenses & Millage Rates - 2013 Through 2018



The City forecasts a gradual rise in the cost of the PA 345 pension system, driven by the current funding of the plan, currently at 62%. In accordance with PA 345 requirements, the City has made 100% of all actuarially required contributions to the Plan, however, a recent wave of retirements coupled with market under-performance has decreased the percentage of the Plan currently funded. As market conditions improve, the City expects the actuaries to tell us to continue to contribute more through most of the next five years until year five, where there may be a potential decrease in the annual required contribution.

The debt millage and covered expenses for the next five years will look like this:

#### Debt Service Covered Expenses & Millage Rates - 2013 Through 2018

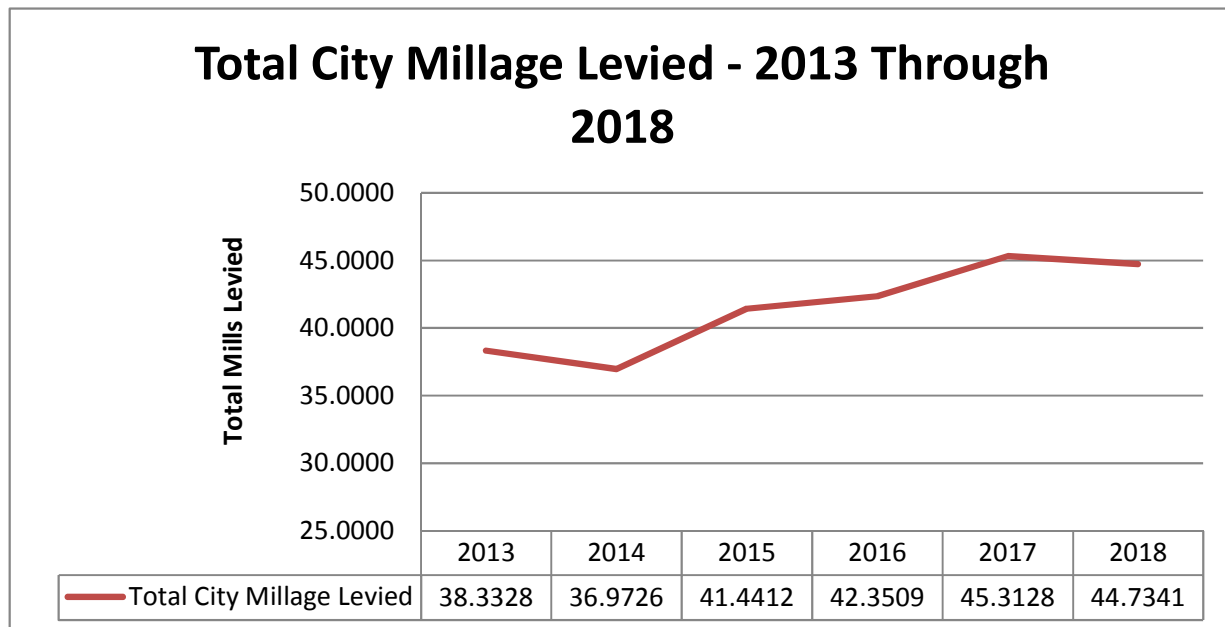


## FORECASTED EXPECTATIONS

### TAX REVENUES (CONTINUED)

Please note that the debt millages and expenses covered as noted above do not take into account any additional bonding by the City. Forecasted amounts shown above include only existing debt service obligations covered by the City's debt millage. All bonds paid by the City debt millage require a vote of the residents in order to be issued.

A key consideration for any City is to strive to provide the highest level of service to the resident while charging them the lowest possible millage rate for those services. The following chart shows the sum of all the City's millages by year through fiscal year 2018 (general operating, public safety operating, PA 345 Pension, and Debt Service).



Finally, although millages are set to increase between 2013 and 2018 by a net of 6.4013 mills, it is important to note that actual taxes paid is based on taxable values multiplied by the above millages. Using the City's forecasted changes in taxable values, the following table shows an average taxpayer's total City tax bill for just City millages in the current fiscal year (2013) and each of the following five fiscal years:

CITY OF CENTER LINE  
CITY TAX BILL BY FISCAL YEAR  
FOR A PROPERTY WITH A TAXABLE VALUE IN 2013 of \$30,000

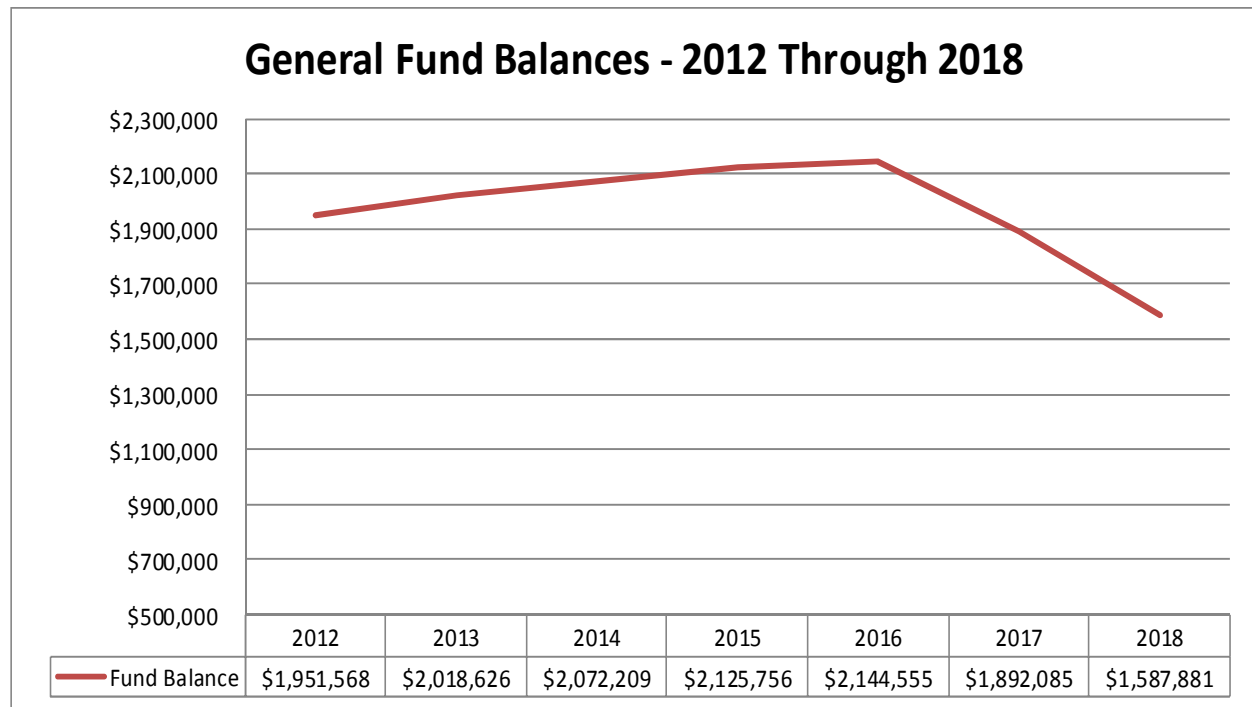
FISCAL YEAR	TAXABLE VALUE	TOTAL CITY MILLAGES	TOTAL CITY TAX BILL	DOLLAR CHANGE
2013	\$ 30,000	38.3328	\$ 1,150	N/A
2014	26,430	36.9726	977	\$ (173)
2015	25,109	41.4412	1,041	64
2016	24,858	42.3509	1,053	12
2017	25,107	45.3128	1,138	85
2018	25,860	44.7341	1,157	19

CHANGE IN TAX BILL IN 2018 vs. 2013: \$ 7

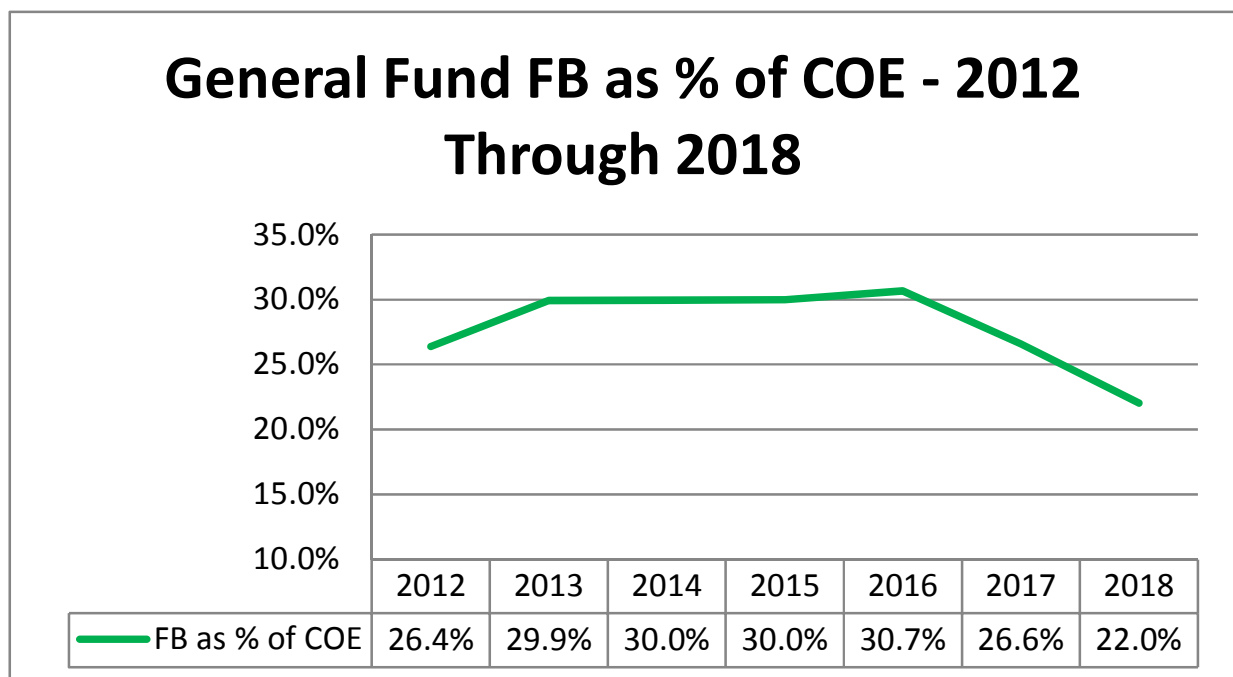
## FORECASTED EXPECTATIONS

### GENERAL FUND

The general fund, considering all key expectations noted earlier in the report, should have fund balances as follows for 2013 through 2018 (2012 actual figures also shown):



Expressed as a percentage of current operating expenditures (COE), the fund balance totals over the same period as above looks like this:



The Government Finance Officers Association recommends at least 20%, which is achieved each year.

## FORECASTED EXPECTATIONS

### GENERAL FUND (CONTINUED)

Looking at the previous chart, the question might be asked, “why does the City’s fund balance seem like it’s never going to go past 30% COE?” The answer is that the plan presented in this forecast to fund other postemployment benefits (such as retiree healthcare) assumes that the City uses all fund balance in excess of 30% in order to fund the OPEB Investment Trust. By doing this, the City will build a balance in the investment trust which will be used to fund retiree benefits in future more lean years, potentially as soon as fiscal year 2019.

The benefit to the City and the retirees is simple: putting money into the Trust now will ensure maximum return on investment over the next five years. Should the forecast presented be correct and fiscal year 2018 gets us down to 22% COE, then it may be necessary to fund retiree health care payments with the trust in fiscal year 2019 in order to keep the fund balance above the GFOA recommended 20% COE level.

In short, investing in the Trust today and over the next five years will potentially create a safety net to aid the City in making these payments for retiree healthcare in the future. If this Plan is adopted by Council, the City will make payments to the OPEB Investment Trust as follows:

FISCAL YEAR	
2013	\$ 520,000
2014	400,000
2015	200,000
2016	100,000

No payments would be made by the City in fiscal years 2017 and 2018 because of the budget deficit in those years. When coupled with Water & Sewer Fund payments to the Trust for that fund’s portion of the OPEB liability, the City projects that the OPEB investment trust, with modest earnings, should have a balance of approximately \$3.3 million, or 47% of the current OPEB liability, by June 30, 2018.

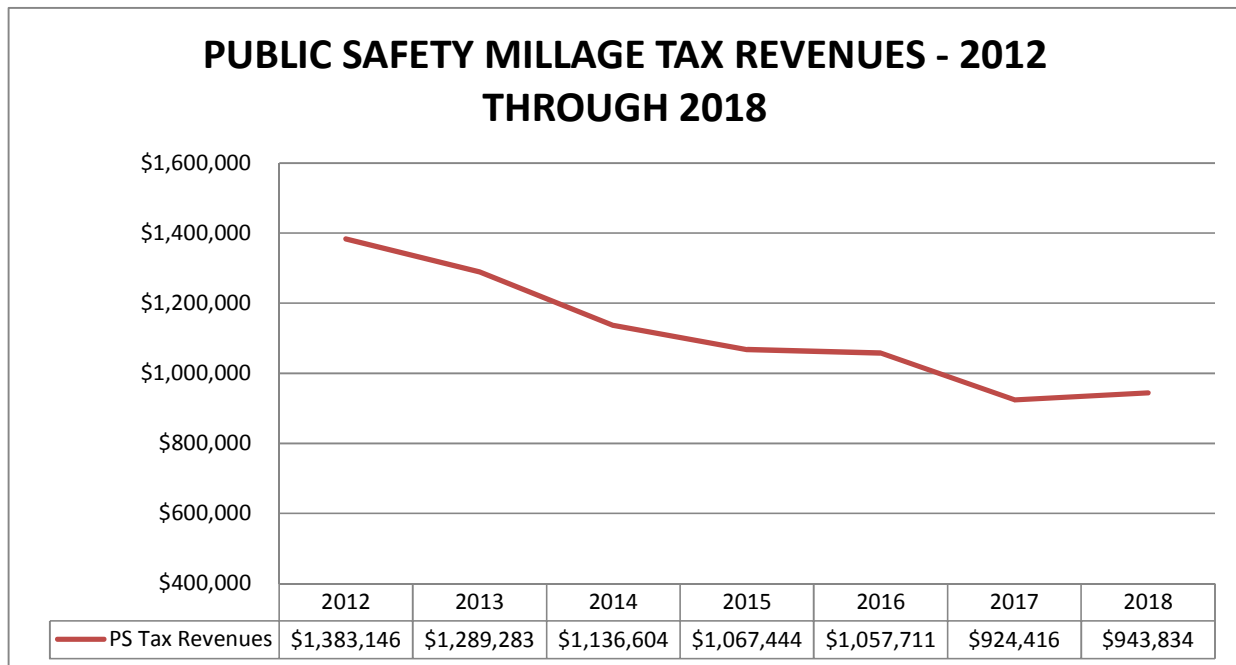
The trend in the general fund is gradual increasing costs along with declining revenues for much of the five year period. As a result, the City will begin to lose fund balance as noted on the previous page in fiscal year 2017. The main drivers of this decline will be inflation, a rise in the consumer price index, as well as uncontrollable legacy costs the City pays to retirees. As can be seen in the chart below, legacy costs, which are already significant, will grow to be approximately 35% of City’s total operating budget by 2018:

TOTAL LEGACY COSTS - 2012 THROUGH 2018				
	GENERAL RETIREES	PUBLIC SAFETY RETIREES	TOTAL LEGACY COSTS	PERCENT OF OPERATING EXPENSES
2012	\$ 580,997	\$ 1,047,093	\$ 1,628,090	22.0%
2013	620,000	1,292,510	1,912,510	28.4%
2014	662,800	1,393,007	2,055,807	29.7%
2015	694,340	1,515,200	2,209,540	31.2%
2016	742,310	1,614,126	2,356,436	33.7%
2017	801,359	1,673,983	2,475,342	34.8%
2018	858,114	1,660,983	2,519,097	34.9%

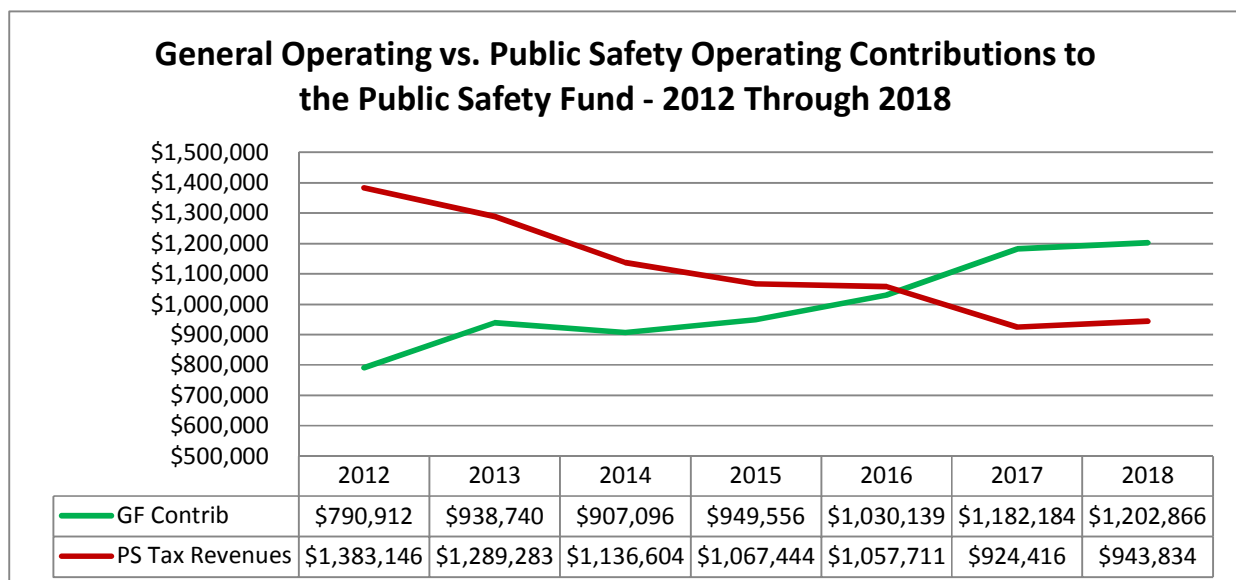
## FORECASTED EXPECTATIONS

### GENERAL FUND (CONTINUED)

Finally, an important statistic to watch is the tax revenue being generated by the 2011 voter approved Public Safety Millage. Originally, the millage levied \$1.4 million. As the chart below shows, declines in taxable values coupled with the elimination of a significant portion of personal property has and will continue to take a toll on this millage:



Another significant contributor to the General Fund's decline in fund balance in 2017 and 2018 is the increasing contribution the General Fund will need to make in order to cover total public safety operations. Although the public safety millage never covered 100% of public safety operations, the amount that it will cover of those operations will continue to decline with taxable values over four of the next five fiscal years as currently forecasted. By fiscal year 2017, the general fund will fund more public safety operations than public safety's own dedicated operating millage:



## **FORECASTED EXPECTATIONS**

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### **KEY POLICY RECOMMENDATIONS**

The forecast as created has taken into account the following policies not yet approved/not yet able to be approved by Council or not yet negotiated into future collective bargaining agreements. Respectively, City Management asks for the following current and/or future actions:

- The funding of the OPEB Investment Trust Fund – As shown on page 14 in this report, it will be a policy presented for approval to Council later this fiscal year asking the Council to approve the distribution of all future General Fund unassigned fund balances in excess of 30% of current operating expenditures to the OPEB Investment Trust Fund. The policy will also require the Water and Sewer Fund to budget for its 8% portion of the City's annual required contribution on the OPEB liability.
- Public Act 152 20% Employee Contribution Option in Fiscal Year 2015 and Beyond – City management will work with all unions in the City to write PA 152 language into all collective bargaining agreements. The effect of doing this for every bargaining unit would save the City \$76,000 in fiscal year 2015 alone assuming that City Council would opt for the 20% employee contribution option. If every union agrees to PA 152 as part of their next contracts, City Management recommends that City Council elect the 20% option beginning in fiscal year 2015.